

VILLAGE OF CONSTANTINE
ST. JOSEPH COUNTY, MICHIGAN

AUDIT REPORT

FOR THE YEAR ENDED MARCH 31, 2005

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1988, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Constantine	County St. Joseph
Audit Date 3/31/05	Opinion Date 1/9/06	Date Accountant Report Submitted to State: 1/20/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

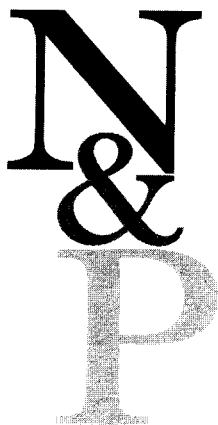
	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.			
Street Address 123 N. Main Street	City Three Rivers	State MI	ZIP 49093
Accountant Signature  C. P. A.			

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INDEPENDENT AUDITOR'S REPORT

Members of the Village Council
Village of Constantine,
St. Joseph County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the component unit, and each major fund, and the aggregate remaining fund information of the Village of Constantine, St. Joseph County, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the component unit, each major fund, and the aggregate remaining fund information of the Village of Constantine, Michigan as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information beginning on page iii through viii and 25 through 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerrel T. Norman (1941-1982)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Constantine's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Norman & Paulsen P.C.

Norman & Paulsen, P.C.

January 9, 2006
Three Rivers, Michigan

VILLAGE OF CONSTANTINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2005

As management of the Village of Constantine, we offer readers of the Village of Constantine financial statements this narrative overview and analysis of the financial activities of the Village of Constantine for the fiscal year ended March 31, 2005.

Financial Highlights

- The assets of the Village of Constantine exceeded its liabilities at March 31, 2005, by \$5,079,843. Of this amount, unrestricted net assets of \$1,781,212 may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets increased by \$457,496. Of this amount, \$467,719 was associated with governmental activities whereas, business – type activities resulted in a decline of net assets by \$4,223.
- As of the close of the current fiscal year, the Village of Constantine's governmental funds reported ending fund balances of \$797,944. Of this amount, \$376,649 is unreserved and available for spending.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$196,214 or 13.08 % of total General Fund expenditures.
- The Village of Constantine's total debt obligations is \$3,090,000. This is a decrease of \$70,000 from the prior year.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village of Constantine's basic financial statements. The Village of Constantine basic financial statements are comprised of 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

(1) Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Village of Constantine's finances, in a manner similar to a private-sector business.

Village of Constantine
Management's Discussion and Analysis 2004 - 2005

The statement of net assets presents information on all the Village assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

(2) Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the Village of Constantine can be divided into two categories: (a) governmental funds and (b) proprietary funds.

(2a) Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Village maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, major street fund, local street fund, debt-service sewer 1997 fund and the debt-service sewer 2001 fund. Data from the six other funds are combined into a single, aggregated presentation within the above named statements. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Village of Constantine adopts a one-year budget for all funds. A budgetary comparison statement has been provided for the general fund, major street fund and local street fund to demonstrate compliance for the fiscal year end of March 31, 2005.

(2b) Proprietary Funds

The Village of Constantine maintains two different types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village maintains two individual enterprise funds. Information is presented separately in the proprietary statement of net assets and proprietary statement of revenues, expenses and changes in fund net assets for the Sewer Operation and Maintenance Fund and Water Fund, which are considered to be major funds. Internal service funds are used to accumulate and allocate costs internally among the Village's various functions. The Village of Constantine uses an internal service fund to account for its fleet purchases and maintenance.

(3) Component Unit Financial Statements

The Village's financial statements include financial data of the Downtown Development Authority. The component unit is described in the notes to the financial statements. The component unit is a separate entity and may buy, sell, lease and mortgage property in its own name.

(4) Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They are found on pages 14 - 24.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain other required supplementary information on pages 25 - 27. This section includes budgetary comparisons for all major governmental funds. The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information on pages 28 - 29.

Governmental-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At March 31, 2005, the Village's assets exceeded liabilities by \$5,079,843. The Village's investment in capital assets, less any related outstanding debt used to acquire those assets, reflects by far the largest portion of the Village's net assets (58.60%). Capital assets are used to provide services to citizens and they are not available for future spending. It should be noted that the resources needed to repay the remaining debt of capital assets must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Village of Constantine's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other assets	\$1,231,785	\$1,344,623	\$1,154,212	\$1,084,290	\$2,385,997	\$2,428,913
Capital assets	<u>4,806,432</u>	<u>4,322,138</u>	<u>1,260,412</u>	<u>1,326,309</u>	<u>6,066,844</u>	<u>5,648,447</u>
Total assets	<u>\$6,038,217</u>	<u>\$5,666,761</u>	<u>\$2,414,624</u>	<u>\$2,410,599</u>	<u>\$8,452,841</u>	<u>\$8,077,360</u>
Liabilities						
Current liabilities	\$ 331,620	\$296,883	\$ 76,378	\$ 68,130	\$ 407,998	\$365,013
Long-term liabilities	<u>2,965,000</u>	<u>3,090,000</u>	<u>-</u>	<u>-</u>	<u>2,965,000</u>	<u>3,090,000</u>
Total Liabilities	<u>\$3,296,620</u>	<u>\$3,386,883</u>	<u>\$ 76,378</u>	<u>\$ 68,130</u>	<u>\$3,372,998</u>	<u>\$3,455,013</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	\$1,716,432	\$1,122,138	\$1,260,412	\$1,326,309	\$2,976,844	\$2,448,447
Restricted	321,787	319,880	-	-	321,787	319,880
Unrestricted	<u>703,378</u>	<u>837,860</u>	<u>1,077,834</u>	<u>1,016,160</u>	<u>1,781,212</u>	<u>1,854,020</u>
Total Net Assets	<u>\$2,741,597</u>	<u>\$2,279,878</u>	<u>\$2,338,246</u>	<u>\$2,342,469</u>	<u>\$5,079,843</u>	<u>\$4,622,347</u>

The unrestricted balance of net assets, \$1,781,212, may be used to meet the government's on going obligations to citizens and creditors.

Village of Constantine
Management's Discussion and Analysis 2004 - 2005

Analysis of the Village's Operations

The following table provides a summary of the Village's operations for the year ended March 31, 2005.

Village of Constantine's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 55,304	\$ 56,075	\$ 795,999	\$ 939,447	\$ 851,303	\$ 995,522
Operating grants and Contributions	620,120	22,029	-	-	620,120	22,029
General revenues:						
Property taxes	1,101,948	1,122,265	-	-	1,101,948	1,122,265
State revenue-sharing	168,211	161,739	-	-	168,211	161,739
Licenses and permits	7,891	8,447	-	-	7,891	8,447
Interest	14,819	10,383	9,864	5,950	24,683	16,333
Other	<u>58,850</u>	<u>32,681</u>	<u>-</u>	<u>(16,500)</u>	<u>58,850</u>	<u>16,181</u>
Total Revenues	2,027,143	1,413,619	805,863	928,897	2,833,006	2,342,516
Expenses:						
General government	267,805	413,340	-	-	267,805	413,340
Public safety	556,071	517,430	-	-	556,071	517,430
Public works	486,751	303,608	741,990	709,410	1,228,741	1,013,018
Interest on long-term debt	157,250	161,886	-	-	157,250	161,886
Depreciation - unallocated	<u>97,547</u>	<u>207,481</u>	<u>68,096</u>	<u>67,198</u>	<u>165,643</u>	<u>274,679</u>
Total Expenses	<u>1,565,424</u>	<u>1,603,745</u>	<u>810,086</u>	<u>776,608</u>	<u>2,375,510</u>	<u>2,380,353</u>
Increase/Decrease in net assets	461,719	(190,126)	(4,223)	152,289	457,496	(37,837)
Net Assets - Beginning of Year	<u>2,279,878</u>	<u>2,470,004</u>	<u>2,342,469</u>	<u>2,190,180</u>	<u>4,622,347</u>	<u>4,660,184</u>
Net Assets - End of Year	<u>\$2,741,597</u>	<u>\$2,279,878</u>	<u>\$2,338,246</u>	<u>\$2,342,469</u>	<u>\$5,079,843</u>	<u>\$4,622,347</u>

Governmental Activities

Governmental activities increased the Village's net assets by \$461,719. Key elements of this increase are as follows:

- County wide voted road millage in the local streets that has been and will continue to be used for local road projects.
- In anticipation of State Revenue Sharing cuts, the Council was very conservative, allowing spending on necessities.
- The Council increased debt retirement millage for the 1997 Sewer Pipeline Debt Service Fund by 0.1 mills from 2.2 mills to 2.3 mills; and the 2001 Sewer Pipeline Debt Service by 0.2 mills from 1.3 mills to 1.5 mills. These millage increases reflect the added debt to cover initiation and repair costs of the sewer conveyance system to Three Rivers.
- Two private streets with a fair market value of \$607,250 were contributed to the Village.

Business-type Activities

Business-type activities reduced the Village's net assets by \$4,223. This decrease was primarily due mainly to a reduction of water and sewer rates.

Financial Analysis of the Government's Funds

As noted earlier, the Village of Constantine uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Government Funds

The purpose of the Village's governmental fund financial statements is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the Village's chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$196,214 while the total fund balance was \$270,476.

As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 21.99% of total General Fund expenditures, while total fund balance represents 30.31% of that same amount.

Proprietary Funds

The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Operation/Maintenance Fund and the Water Fund at the end of the year were \$996,344 and \$92,738, respectively. The Sewer Fund showed an increase in net assets of \$59,918 while the Water Fund showed a decline of \$55,221. Other factors concerning the finances of these funds have already been addressed in the discussion of the Village's business-type activities.

General Fund Budgetary Highlights

The original General Fund budget was not amended.

Actual revenues were \$20,346 less than budgeted. County road taxes were \$19,451 less than budgeted. State shared revenues were \$5,982 less than budgeted. The Village received \$8,728 of monies from the State of Michigan that were not budgeted. Village property taxes were \$7,345 more than budgeted.

Actual expenses were \$9,448 less than budgeted. As shown on the Budgetary Comparison on page 25 of the financial statements some of the different departments incurred less expenditures than budgeted while other departments incurred more expenditures than budgeted for a net favorable position.

Capital Assets and Debt Administration

The Village's investment in capital assets for its governmental and business-type activities at March 31, 2005 amounts to \$6,066,844. The investment in capital assets includes sewer system improvements and equipment within the Village.

During the current fiscal year the Village invested \$121,776 in police vehicles, backhoe, chipper, and furnaces. Two private streets with a fair market value of \$607,250 were contributed to the village for total additions of \$729,026. Additional information on the Village's capital assets can be found in Notes 1 and 5 on pages 16 – 17, 20 – 22.

Long-term Debt

At the end of the 2004-2005 fiscal year, the Village had \$3,090,000 in outstanding general obligation bonds, secured by specific revenue sources. These bonds relate to improvements to the water and sewer operations.

Economic Factors and Next Year's Budgets and Rates

The Village of Constantine Council has shown fiscal responsibility in its planning for budget and spending practices. The Village has completed four years of strategic planning with plans for continuation into future years. Additionally, the Council monitored and responded to continuing concerns over potential State Revenue Sharing cuts. Monthly reports of bills for the previous month are submitted to Council for their approval, additionally, a quarterly financial budget report is provided to Council. Budgets for the 2005-2006 fiscal year were done on the following assumptions.

- State of Michigan state revenue sharing was computed closely to 2004-2005 figures with the budgeted amount less than in 2000-2001; 2001-2002 and 2002-2003.
- Investment income is substantially reduced from previous budgets because of declining interest rates.
- Local Street County millage revenue will be similar to previous years with the approval of the county-wide road millage in August 2004.
- The Village is in litigation with the former Dell Engineering over the work completed on the sewer conveyance system to Three Rivers. The outcome of the litigation is unknown but will cause the incurrence of legal expenses prior to the outcome known.

Requests for Information

This financial report is designed to provide a general overview of the Village of Constantine's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or for additional financial information should be addressed to the Village of Constantine, 115 White Pigeon St., Constantine, Michigan 49042.

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF NET ASSETS
MARCH 31, 2005

	Primary Government			Component Units
	Governmental Activities	Business -Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 213,501	\$ 872,968	\$ 1,086,469	\$ 5,780
Investments	624,176	41,391	665,567	-
Receivables (net)	24,294	220,586	244,880	-
Receivables from other governments	41,665	-	41,665	-
Inventories	-	12,617	12,617	-
Prepaid expenses	46,915	6,650	53,565	-
Assets restricted by bond indentures	281,234	-	281,234	-
Capital assets - net	4,806,432	1,260,412	6,066,844	101,080
Total Assets	<u>\$ 6,038,217</u>	<u>\$ 2,414,624</u>	<u>\$ 8,452,841</u>	<u>\$ 106,860</u>
LIABILITIES				
Cash overdrafts	\$ 167,678	\$ -	\$ 167,678	\$ -
Accounts payable	4,079	54,338	58,417	-
Accrued payroll and other liabilities	34,863	1,993	36,856	-
Customer security deposits	-	20,047	20,047	500
Noncurrent liabilities				
Due within one year	125,000	-	125,000	1,519
Due in more than one year	2,965,000	-	2,965,000	110,481
Total Liabilities	<u>\$ 3,296,620</u>	<u>\$ 76,378</u>	<u>\$ 3,372,998</u>	<u>\$ 112,500</u>
NET ASSETS				
Invested in capital assets				
Net of related debt	\$ 1,716,432	\$ 1,260,412	\$ 2,976,844	\$ (10,920)
Restricted for				
Debt service	321,787	-	321,787	-
Unrestricted	703,378	1,077,834	1,781,212	5,280
Total Net Assets	<u>\$ 2,741,597</u>	<u>\$ 2,338,246</u>	<u>\$ 5,079,843</u>	<u>\$ (5,640)</u>

See accompanying notes to financial statements

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2005

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
General government	\$ 264,805	\$ -	\$ -
Public safety	556,071	55,304	-
Public works	486,751	-	607,250
Contribution to component unit	3,000	-	-
Interest on long-term debt	156,400	-	-
Bond agent fees	850	-	-
Depreciation - unallocated	97,547	-	-
Total Governmental Activities	<u>1,565,424</u>	<u>55,304</u>	<u>607,250</u>
Business - Type Activities			
Water and Sewer	810,086	795,999	-
Total Primary Government	<u>\$ 2,375,510</u>	<u>\$ 851,303</u>	<u>\$ 607,250</u>
Component unit:			
Downtown Development Authority	<u>\$ 19,829</u>	<u>\$ -</u>	<u>\$ 2,494</u>

General Revenues

Property Taxes
State-Shared Revenues
Licenses and Permits
Unrestricted Investment Earnings
Gain/loss on sale of capital assets
Miscellaneous
Contributions

Total General Revenues

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

See accompanying notes to financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business -Type Activities	Total	Component Units
\$ (264,805)	\$ -	\$ (264,805)	\$ -
(500,767)	-	(500,767)	-
120,499	-	120,499	-
(3,000)	-	(3,000)	-
(156,400)	-	(156,400)	-
(850)	-	(850)	-
(97,547)	-	(97,547)	-
(902,870)	-	(902,870)	-
-	(14,087)	(14,087)	-
<u>\$ (902,870)</u>	<u>\$ (14,087)</u>	<u>\$ (916,957)</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (17,335)
1,101,948	-	1,101,948	-
168,211	-	168,211	-
7,891	-	7,891	-
14,819	9,864	24,683	9,636
20,136	-	20,136	-
38,714	-	38,714	132
12,870	-	12,870	3,000
<u>1,364,589</u>	<u>9,864</u>	<u>1,374,453</u>	<u>12,768</u>
461,719	(4,223)	457,496	(4,567)
<u>2,279,878</u>	<u>2,342,469</u>	<u>4,622,347</u>	<u>(1,073)</u>
<u>\$ 2,741,597</u>	<u>\$ 2,338,246</u>	<u>\$ 5,079,843</u>	<u>\$ (5,640)</u>

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2005**

	General Fund	Major Street Fund	Local Street Fund	Debt-Service Sewer 1997 Fund
ASSETS				
Cash and cash equivalents	\$ 250	\$ 133,167	\$ 13,445	\$ -
Investments	405,393	-	-	-
Receivables (net)	16,593	-	-	3,509
Receivables from other governments	12,501	21,545	7,619	-
Prepaid expenses	23,640	511	511	-
Restricted cash and cash equivalents	-	-	-	206,671
Total Assets	<u>\$ 458,377</u>	<u>\$ 155,223</u>	<u>\$ 21,575</u>	<u>\$ 210,180</u>
LIABILITIES				
Cash overdraft	\$ 111,173	\$ -	\$ -	\$ -
Accounts payable	3,285	134	134	-
Other accrued liabilities	23,443	1,003	452	-
Due to other funds	50,000	-	-	-
Total Liabilities	<u>\$ 187,901</u>	<u>\$ 1,137</u>	<u>\$ 586</u>	<u>\$ -</u>
FUND BALANCES				
Reserved for				
Fire truck	\$ 74,262	\$ -	\$ -	\$ -
Debt service - 1997 sewer	-	-	-	210,180
Debt service - 1997 water system	-	-	-	-
Capital improvements	-	-	-	-
Debt service - 2001 sewer	-	-	-	-
Sinking fund	-	-	-	-
	<u>74,262</u>	<u>-</u>	<u>-</u>	<u>210,180</u>
Unrestricted	<u>196,214</u>	<u>154,086</u>	<u>20,989</u>	<u>-</u>
Total Fund Balances	<u>270,476</u>	<u>154,086</u>	<u>20,989</u>	<u>210,180</u>
Total Liabilities and Fund Balances	<u>\$ 458,377</u>	<u>\$ 155,223</u>	<u>\$ 21,575</u>	<u>\$ 210,180</u>

See accompanying notes to financial statements

Nonmajor Governmental Funds	Total Governmental Funds
\$ 66,639	\$ 213,501
-	405,393
3,815	23,917
-	41,665
-	24,662
74,563	281,234
<u>\$ 145,017</u>	<u>\$ 990,372</u>
\$ 2,804	\$ 113,977
-	3,553
-	24,898
-	50,000
<u>\$ 2,804</u>	<u>\$ 192,428</u>
\$ -	\$ 74,262
-	210,180
76,089	35,518
28,050	76,089
35,518	28,050
(2,804)	(2,804)
136,853	421,295
5,360	376,649
142,213	797,944
<u>\$ 145,017</u>	<u>\$ 990,372</u>

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES

MARCH 31, 2005

Total governmental fund balances			\$ 797,944
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds.			
	Cost of capital assets	6,351,254	
	Less accumulated depreciation	<u>(1,764,054)</u>	4,587,200
Internal service funds are used to charge the costs of certain activities such as rental of equipment to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets, net of (\$8,920) allocated against business-type activities.			446,453
Long-term liabilities are not due and payable in the current period and not reported in the funds.			<u>(3,090,000)</u>
Net Assets of Governmental Activities			<u><u>\$ 2,741,597</u></u>

See accompanying notes to financial statements

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2005

	General Fund	Major Street Fund	Local Street Fund	Debt-Service Sewer 1997 Fund
Revenues				
Taxes and Penalties	\$ 838,087	\$ -	\$ -	\$ 126,428
Licenses and Permits	7,891	-	-	-
State Grants	5,199	120,446	42,566	-
Contributions	620,120	-	-	-
Charges for Services	47,064	-	-	-
Fines and Forfeits	8,240	-	-	-
Interest and Rentals	4,878	1,639	103	-
Other Revenue	21,840	-	-	3,658
	<u>21,840</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	1,553,319	122,085	42,669	130,086
Expenditures				
Current				
General Government	212,885	23,696	15,799	-
Public Safety	513,176	-	-	-
Public Works	160,837	70,779	65,283	-
Contribution to Component Unit	3,000	-	-	-
Capital Outlay	609,717	-	-	-
Debt Service	-	-	-	-
Paying agent fees	-	-	-	300
Bond principal	-	-	-	70,000
Bond interest	-	-	-	60,530
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	1,499,615	94,475	81,082	130,830
Excess (deficiency) of Revenues Over Expenditures	53,704	27,610	(38,413)	(744)
Other Financing Sources (Uses)				
Transfers in	-	-	30,000	-
Transfers (Out)	(500)	(30,000)	-	-
Total Other Financing Sources(Uses)	<u>(500)</u>	<u>(30,000)</u>	<u>30,000</u>	<u>-</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	53,204	(2,390)	(8,413)	(744)
Fund Balance - April 1, 2004	217,272	156,476	29,402	210,924
Fund Balance - March 31, 2005	<u>\$ 270,476</u>	<u>\$ 154,086</u>	<u>\$ 20,989</u>	<u>\$ 210,180</u>

See accompanying notes to financial statements

Nonmajor Governmental Funds	Total Governmental Funds
\$ 137,433	\$ 1,101,948
-	7,891
-	168,211
-	620,120
-	47,064
-	8,240
1,931	12,209
16,874	38,714
156,238	2,004,397
12,425	264,805
-	513,176
-	296,899
-	3,000
-	609,717
550	850
40,000	110,000
95,870	156,400
148,845	1,954,847
7,393	49,550
35,097	65,097
(34,597)	(65,097)
500	-
7,893	49,550
134,320	748,394
\$ 142,213	\$ 797,944

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MARCH 31, 2005

Net Change in Fund Balances - Total Governmental Funds		\$ 49,550
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.		
	Depreciation expense (204,300)	
	Cost of capital outlay <u>609,717</u>	405,417
In the statement of activities, any gain or loss on the sale/disposal of assets is reported, whereas in the government funds, any proceeds received increases financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the assets sold.		(1,500)
Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities where it reduces long-term debt.		110,000
Internal service funds are used to charge the rental of certain equipment to individual funds. The net revenue of the internal service funds are shown with governmental activities except for (\$8,920) allocated to business-type activities.		<u>(101,748)</u>
Change in Net Assets of Governmental Activities		<u><u>\$ 461,719</u></u>

See accompanying notes to financial statements

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
MARCH 31, 2005

	Business - Type Activities Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Totals	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 843,385	\$ 29,583	\$ 872,968	\$ -
Investments	-	41,391	41,391	218,783
Receivables - net	193,598	26,988	220,586	377
Due from other funds	-	-	-	50,000
Inventories	-	12,617	12,617	-
Prepaid insurance	3,851	2,799	6,650	11,004
Total current assets	1,040,834	113,378	1,154,212	280,164
Noncurrent assets				
Capital assets	1,005,944	254,468	1,260,412	219,232
Total Assets	<u>\$ 2,046,778</u>	<u>\$ 367,846</u>	<u>\$ 2,414,624</u>	<u>\$ 499,396</u>
LIABILITIES				
Current liabilities				
Cash overdraft	\$ -	\$ -	\$ -	\$ 53,701
Accounts payable	43,060	30	43,090	526
Accrued payroll and other liabilities	1,430	563	1,993	9,965
Customer security deposits	-	20,047	20,047	-
Total current liabilities	44,490	20,640	65,130	64,192
Total Liabilities	<u>\$ 44,490</u>	<u>\$ 20,640</u>	<u>\$ 65,130</u>	<u>\$ 64,192</u>

See accompanying notes to financial statements

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF NET ASSETS (CONTINUED)
 PROPRIETARY FUNDS
 MARCH 31, 2005

	Business - Type Activities Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Totals	
NET ASSETS				
Invested in capital assets - Net of related debt				
Unrestricted	\$ 1,005,944	\$ 254,468	\$ 1,260,412	\$ 219,232
	996,344	92,738	1,089,082	215,972
Total Net Assets	<u>\$ 2,002,288</u>	<u>\$ 347,206</u>	2,349,494	<u>\$ 435,204</u>

Reconciliation to the statement of net assets

Internal service funds are used to charge the costs of certain activities, such as equipment rental to individual funds. The assets and liabilities of certain internal service funds are included with business-type activities in the statement of net assets.

Net assets of business-type activities

(11,248)
\$ 2,338,246

See accompanying notes to financial statements

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2005

	Business - Type Activities Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Totals	
Operating revenues				
Metered sales	\$ -	\$ 119,752	\$ 119,752	\$ -
Sewage disposal services	647,761	-	647,761	-
Equipment rentals	-	-	-	-
Penalties and interest charges	14,533	11,004	25,537	123,749
Installation and other charges	-	2,949	2,949	-
Total operating revenues	662,294	133,705	795,999	123,749
Operating expenses				
Personnel services	85,695	81,127	166,822	47,591
Contractual services	451,861	6,655	458,516	1,397
Utilities	8,906	12,747	21,653	5,637
Repairs and maintenance	1,891	39,051	40,942	9,059
Other supplies and expenses	11,521	33,616	45,137	13,860
Depreciation	51,502	16,594	68,096	33,869
Total operating expenses	611,376	189,790	801,166	111,413
Operating income (loss)	50,918	(56,085)	(5,167)	12,336
Nonoperating revenues (expenses)				
Interest revenue	9,000	864	9,864	2,610
Gain on sale of capital assets	-	-	-	21,636
Contribution to other governments	-	-	-	(147,250)
Total nonoperating revenues (expenses)	9,000	864	9,864	(123,004)
Change in net assets	59,918	(55,221)	4,697	(110,668)
Total net assets - beginning of year	1,942,370	402,427	2,344,797	545,872
Total net assets - end of year	\$ 2,002,288	\$ 347,206	\$ 2,349,494	\$ 435,204
Reconciliation to Government-wide Statement of Net Assets:				
Amounts reported for business-type activities in the government-wide				
Statement of Activities are different because:				
Net change in net assets - total business-type funds			4,697	
Net effect of elimination of internal service fund activities.			(8,920)	
Change in net assets of business-type activities			\$ (4,223)	

See accompanying notes to financial statements

**PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2005**

	Business - Type Activities Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 610,322	\$ 137,669	\$ 747,991	\$ -
Receipts from interfund services	-	-	-	123,749
Payments to suppliers	(476,062)	(87,296)	(563,358)	(40,803)
Payments to employees	(85,386)	(80,746)	(166,132)	(51,067)
Payments for interfund services	(2,515)	(5,666)	(8,181)	-
Other receipts (payments)	-	8,164	8,164	-
Net cash provided (used) by operating activities	46,359	(27,875)	18,484	31,879
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating subsidies and transfers to other funds	-	-	-	(147,250)
Net cash provided (used) by noncapital financing activities	-	-	-	(147,250)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	-	-	-	24,500
Purchases of capital assets	-	(2,200)	(2,200)	(117,110)
Net cash provided (used) by capital and related financing activities	-	(2,200)	(2,200)	(92,610)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	(324)	(324)	(1,712)
Interest and dividends	9,000	793	9,793	2,321
Net cash provided by investing activities	9,000	469	9,469	609
Net increase (decrease) in cash and cash equivalents	55,359	(29,606)	25,753	(207,372)
Balances - beginning of year	788,026	59,189	847,215	153,671
Balances - end of year	<u>\$ 843,385</u>	<u>\$ 29,583</u>	<u>\$ 872,968</u>	<u>\$ (53,701)</u>
See accompanying notes to financial statements				

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF CASH FLOWS (CONTINUED)
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED MARCH 31, 2005

	Business - Type Activities Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Totals	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ 50,918	\$ (56,085)	\$ (5,167)	\$ 12,336
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation expense	51,502	16,594	68,096	33,869
(Increase) decrease in assets				
Receivables	(51,972)	3,964	(48,008)	-
Inventories	-	5,181	5,181	-
Prepaid expenses	(584)	(363)	(947)	(11,004)
Increase (decrease) in liabilities				
Accounts payables	(3,814)	(5,711)	(9,525)	154
Accrued expenses	309	381	690	(3,476)
Customer security deposits	-	8,164	8,164	-
Net cash provided by operating activities	<u>\$ 46,359</u>	<u>\$ (27,875)</u>	<u>\$ 18,484</u>	<u>\$ 31,879</u>

See accompanying notes to financial statements

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF NET ASSETS
COMPONENT UNIT
MARCH 31, 2005

	<u>Downtown Development Authority</u>
ASSETS	
Cash and cash equivalents	
Capital assets - net	\$ 5,780
	<u>101,080</u>
Total Assets	
	<u>\$ 106,860</u>
LIABILITIES	
Customer security deposits	
Noncurrent liabilities	500
Due within one year	
Due in more than one year	1,519
	<u>110,481</u>
Total Liabilities	
	<u>\$ 112,500</u>
NET ASSETS	
Invested in capital assets -	
Net of related debt	
Unrestricted	\$ (10,920)
	<u>5,280</u>
Total Net Assets	
	<u>\$ (5,640)</u>

See accompanying notes to financial statements

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF ACTIVITIES
COMPONENT UNIT
FOR THE YEAR ENDED MARCH 31, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets Downtown Development Authority
		Charges for Services	Operating Grants and Contributions	
Downtown Development Authority				
Community and economic development	\$ 14,811	\$ -	\$ 2,494	\$ (12,317)
Interest on long-term debt	5,018	-	-	(5,018)
Total Downtown Development Authority	<u>\$ 19,829</u>	<u>\$ -</u>	<u>\$ 2,494</u>	<u>(17,335)</u>
General Revenues				
Rents				9,629
Unrestricted interest and investment earnings				7
Contribution from General Fund				3,000
Miscellaneous				132
Total general revenues				<u>12,768</u>
Change in Net Assets				(4,567)
Net Assets - Beginning of Year				<u>(1,073)</u>
Net Assets - End of Year				<u>\$ (5,640)</u>

See accompanying notes to financial statements

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Constantine conform to the accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Constantine:

A. Reporting Entity

An elected 7-member council governs the Village of Constantine. The accompanying financial statements present the government and its component unit, the Downtown Development Authority, which the government is considered to be financially accountable. Although component units are legal separate entities, in substance, they are part of the government's operations. The Downtown Development Authority is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities that rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

One of the revenue types for which receivables are recorded on the governmental fund balance sheet is property taxes. Property tax is levied on each July 1st on the taxable valuation of property located in the Village of Constantine as of the preceding December 31st.

Although the Village of Constantine's 2004 ad valorem tax is levied and collectible on December 1, 2004, it is the Village of Constantine's policy to recognize revenue from the current tax levy in the subsequent year or the current year with the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 taxable valuation of the Village of Constantine totaled \$63,719,823, on which ad valorem taxes levied consisted of 10.5 mills for the Village of Constantine's operating purposes, 5.25 mills for IFT, and 4.8 mills for debt service, raising \$484,878 for operating, \$92,089 million for IFT and \$263,750 for debt service. These amounts are recognized in the respective General, Special Revenue and Debt Service Fund financial statements as taxes receivable - current or as property tax revenue.

The governmental fund financial statements report the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets, whereas, the Local Street Fund accounts for resources restricted for use on local streets.

The governmental fund financial statements report the following major proprietary funds:

Water Fund - The Water Fund accounts for revenues generated from charges for distribution of water to the residential and commercial users of the Village.

Sewer Fund - The Sewer Fund accounts for revenues generated from charges for sanitary sewer services provided to the residential and commercial users of the Village.

Additionally, the government reports the following fund type:

Internal Service Fund - The Internal Service Fund accounts for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the government on a cost reimbursement basis.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected to follow private sector standards issued after November 30, 1989 for its business-type activities.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

Bank deposits and investments-Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and payables-In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statement as "internal balances."

No allowance for uncollectible accounts has been provided. Management has evaluated the accounts and believes they are all collectible.

Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on September 15th of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items-Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets-The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the Village's water and sewer lines.

Capital Assets-Capital assets, which include property, plant, equipment, infrastructure assets, (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year \$-0- of interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 – 40 years
Water and sewer lines	50 years
Water and sewer equipment	10 – 20 years
Fire hydrants	50 years
Roads	5 – 30 years
Vehicles	10 years
Fire trucks/ambulances	10 – 15 years
Fire and police equipment	7 years
Office equipment	7 years
Computer equipment	5 years

Compensated Absences (Vacation and Sick Leave)-Employees earn vacation days based on their hiring anniversary date. Depending upon an employee's specific union agreement, unused vacation days may not accumulate from year to year. However, vacation benefits for any given year are 100% vested upon termination if the individual has completed at least one year of service. The Village of Constantine's accrued vacation pay totaled \$23,882 at March 31, 2005. Sick pay is cumulative from year to year up to a maximum of 50 or 65 days with no benefit paid upon termination, depending upon an employee's specific union contract agreement.

Long-Term Obligations-In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity-In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information-Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. Public hearings are held to obtain taxpayer comments before the Village Council approves the budgets. The Council must approve any revisions of the budgets.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the departmental level.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the District incurred expenditures in excess of the amounts appropriated in the following budgeted line items:

<u>Budget item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
<u>General Fund:</u>		
General government		
Village manager	33,547	39,216
Contracted services	11,937	15,373
Public safety		
Police	403,039	416,824
Public works		
Buildings and grounds	145,570	160,837
Contributions	-	3,000
Transfers	-	500
<u>Major Streets</u>		
Street maintenance	36,788	42,476
Snow removal	21,330	22,120
Supervision	18,724	23,696
<u>Local Streets</u>		
Street maintenance	33,218	41,284
Traffic service	4,007	4,694
Snow removal	17,230	19,305

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 3 DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local government units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Village of Constantine is authorized to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village of Constantine Board has designated two banks for the deposit of the Village's funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

The Village of Constantine's deposits and investment policy are in accordance with statutory authority.

At fiscal year-end, the Village of Constantine's basic financial statements report deposits and investments in the following categories:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Unit
Cash/cash equivalents	\$ 12,594	\$872,968	\$885,562	\$5,780
Restricted cash/cash equivalents	266,204	-	266,204	-
Unrestricted Investments	624,176	41,391	665,567	-
Restricted investments	48,259	-	48,259	-
Total	<u>\$951,233</u>	<u>\$914,949</u>	<u>\$1,865,592</u>	<u>\$5,780</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Petty cash and cash on hand	\$ 500	\$ -
Bank deposits (checking and savings accounts, certificates of deposit)	1,318,944	5,780
Bank overdraft shown as liability	(167,678)	-
Investments in Public Investment Trust, Government Cash Reserves	713,826	-
Total	<u>\$1,865,592</u>	<u>\$5,780</u>

The bank balance of the primary government's deposits is \$1,151,266 of which \$264,489 is covered by federal depository insurance and \$-0- is collateralized. The Village is willing to accept the custodian credit risk created by the \$886,777 of uninsured funds that are deposited in two banks. Approximately \$591,305 is invested in U.S. government cash reserves and another \$122,521 is invested in repurchase agreements that are backed by U.S. securities. The Village's policy requires evaluating each financial institution with which it deposits Village funds and assessing the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

The component unit's deposits had a bank balance of \$5,780 of which all was covered by federal depository insurance and \$-0- was collateralized. The component unit held no investments at March 31, 2005.

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 4 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to:	Due from:	
Internal service	General	50,000
Interfund Transfers		
<u>Transfers To (fund)</u>	<u>Transfers From (fund)</u>	<u>Amount</u>
Local Street	Major street	30,000
Sinking fund	General	500
Debt Service Sewer 2001	Capital Projects	34,597
Total		<u>\$65,097</u>

Transfers from the Major Street Fund to the Local Street Fund follow state statutory regulations. The transfer to the Local Street Fund from the General Fund was to cover operating deficits. The transfer to the Sinking Fund was done to accumulate monies from for use in purchasing Village assets. The Capital Projects transfer to the Debt Service – sewer 2001 fund covered a debt service payment.

NOTE 5 CAPITAL ASSETS

The following summarizes the changes in capital assets for the fiscal year ended March 31, 2005:

Governmental Activities

	Balance April 1, <u>2004</u>	<u>Increases</u>	<u>Decreases</u>	Balance March 31, <u>2005</u>
Capital assets being depreciated:				
Buildings	\$ 397,185	\$ 2,750	\$ -	\$ 399,935
Infrastructure	988,901	607,250	-	1,596,151
Water plant	618,768	-	-	618,768
Sewer pipeline	3,039,689	-	-	3,039,689
Office equipment	45,907	-	5,389	40,518
Police vehicles	22,570	-	-	22,570
Police equipment	33,904	-	3,574	30,330
Fire trucks/ambulances	340,760	-	-	340,760
Fire equipment	314,251	2,467	-	316,718
Internal service fund equipment	<u>476,285</u>	<u>114,359</u>	<u>75,536</u>	<u>515,108</u>
Subtotal	<u>6,278,220</u>	<u>726,826</u>	<u>84,499</u>	<u>6,920,547</u>

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 5 CAPITAL ASSETS (CONTINUED)

	Balance April 1, 2004	Increases	Decreases	Balance March 31, 2005
Governmental Activities				
Less Accumulated depreciation for:				
Buildings	252,479	10,500	-	262,979
Infrastructure	450,796	82,256	-	533,052
Water plant	68,064	12,376	-	80,440
Sewer pipeline	263,753	60,794	-	324,547
Office equipment	25,435	6,574	4,548	27,461
Police vehicles	2,051	2,257	-	4,308
Police equipment	24,725	4,254	2,915	26,064
Fire trucks/ambulances	229,500	18,268	-	247,768
Fire equipment	278,155	8,804	-	286,959
Internal service fund equipment	<u>361,124</u>	<u>32,086</u>	<u>72,673</u>	<u>320,537</u>
Subtotal	<u>1,956,082</u>	<u>238,169</u>	<u>80,136</u>	<u>2,114,115</u>
Net capital assets being depreciated:	<u>\$4,322,138</u>	<u>\$488,657</u>	<u>\$ 4,363</u>	<u>\$4,806,432</u>
Business-type Activities				
Capital assets not being depreciated:				
Land and land rights	<u>\$ 32,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,215</u>
Capital assets being depreciated:				
Buildings	1,844,837	\$ 2,200	-	\$1,847,037
Sewage system	624,011	-	-	624,011
Office equipment	8,432	-	-	8,432
Wells, mains, Equipment	<u>906,434</u>	<u>-</u>	<u>-</u>	<u>906,434</u>
Subtotal	<u>3,383,714</u>	<u>2,200</u>	<u>-</u>	<u>\$3,385,914</u>
Less Accumulated Depreciation for:				
Buildings	1,017,172	37,419	-	\$1,054,591
Sewage system	428,163	12,480	-	440,643
Office equipment	843	1,687	-	2,530
Wells, mains, equipment	<u>643,443</u>	<u>16,510</u>	<u>-</u>	<u>659,953</u>
Subtotal	<u>2,089,621</u>	<u>68,096</u>	<u>-</u>	<u>2,157,717</u>
Net Capital Assets being depreciated	<u>1,294,093</u>	<u>(65,896)</u>	<u>-</u>	<u>1,228,197</u>
Total Business-Type Capital Assets – Net of Depreciation	<u>\$1,326,308</u>	<u>(\$65,896)</u>	<u>\$ -</u>	<u>\$1,260,412</u>

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 5 CAPITAL ASSETS (CONTINUED)

Depreciation expense as charged to programs of the primary government follows:

Governmental Activities	
Public Safety	\$ 33,583
Public Works	73,170
Unallocated depreciation	97,547

Capital assets held by the Village's internal service funds are charged to the various functions based on the asset usage:

Public Safety	9,312
Public Works	<u>24,557</u>

Total – Governmental Activities column of Statement of Activities \$238,169

Business-type activities	
Sewer	\$51,502
Water	<u>16,594</u>

Total – Business -Type Activities column of Statement of Activities \$68,096

Construction Commitments-The Village has no active construction projects at year-end.

Downtown Development Authority – The Authority is in process of developing an incubator center to foster small business development.

NOTE 6 LONG-TERM DEBT

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village government. County contractual agreements and installment purchase agreements are also general obligations of the Village. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Village is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 6 LONG-TERM DEBT (CONTINUED)

Bond and contractual obligation activity can be summarized as follows:

	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-Type Activities				
Limited Tax General Obligation Bonds				
1997 Water System Improvement- to construct water treatment plant; \$590,000 bonds; 4.8-7.0% interest; maturing April 2017.	\$ 450,000	\$ (25,000)	\$425,000	\$ 25,000
1997 Sewage Disposal System- to construct sewage disposal system; \$1,640,000 bonds; 4.2-6.7% interest; maturing April 2017.	1,245,000	(70,000)	1,175,000	70,000
2001 Sanitary Sewer-to reconstruct sewage disposal system; \$1,510,000 bonds; 4.35-5.1% interest; maturing April 2022.	<u>1,505,000</u>	<u>(15,000)</u>	<u>1,490,000</u>	<u>30,000</u>
Total Business-Type Activities	<u>\$3,200,000</u>	<u>(\$110,000)</u>	<u>\$3,090,000</u>	<u>\$125,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End March 31</u>	<u>Business-Type</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 125,000	\$ 151,298
2007	130,000	145,483
2008	145,000	139,378
2009	160,000	132,540
2010	180,000	124,938
2011-2015	1,135,000	478,815
2016-2020	960,000	182,895
2021-2022	<u>255,000</u>	<u>19,573</u>
Total	<u>\$3,090,000</u>	<u>\$1,374,917</u>

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2005

NOTE 7 RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for workers' compensation, general liability and medical and participates in the Michigan Municipal League risk pool for claims related to the above coverage. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority to pay claims up to the member's retention limits, the ultimate liability for those claims remains with the Village.

NOTE 8 EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The Village established a Money Purchase Plan for substantially all of its employees that have completed one year of service and have attained age 18. The Plan provides for an annual employer contribution of up to \$3,120 based on an amount equal to a percentage of eligible compensation. All eligible employees may make voluntary contributions of up to ten percent (10%) of their compensation to the Plan.

The Village's total payroll during the current fiscal year was \$664,989. The current fiscal year Money Purchase Plan contribution was calculated based on covered payroll of \$332,556, resulting in an employer contribution of \$14,694 or 4.42% of covered payroll.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2005

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended budget
Resources (inflows)				
Taxes and penalties	\$ 858,883	\$ 858,883	\$ 838,087	\$ (20,796)
Licenses and permits	8,750	8,750	7,891	(859)
State grants	1,500	1,500	5,199	3,699
Charges for services	52,939	52,939	47,064	(5,875)
Fines and forfeitures	13,500	13,500	8,240	(5,260)
Interest and rentals	5,000	5,000	4,878	(122)
Other revenue	15,000	15,000	21,840	6,840
Contributions	-	-	4,056	4,056
Transfers in from other government	10,843	10,843	8,814	(2,029)
Amounts available for appropriations	966,415	966,415	946,069	(20,346)
Charges to appropriations (outflows)				
General government				
Council	178,870	178,870	150,175	28,695
Village manager	33,547	33,547	39,216	(5,669)
Treasurer	3,972	4,072	4,216	(144)
Clerk	4,584	4,584	3,905	679
Elections	4,700	4,700	-	4,700
Contracted services	12,037	11,937	15,373	(3,436)
Public safety				
Police	403,039	403,039	416,824	(13,785)
Fire/EMS	115,994	115,994	98,819	17,175
Public works				
Buildings and grounds	145,570	145,570	160,837	(15,267)
Contribution to DDA	-	-	3,000	(3,000)
Transfers to other funds	-	-	500	(500)
Total charges to appropriations	902,313	902,313	892,865	9,448
Excess (deficiency) of resources over charges to appropriations	64,102	64,102	53,204	(10,898)
Beginning of Year Fund Balance	217,272	217,272	217,272	
End of Year Fund Balance	\$ 281,374	\$ 281,374	\$ 270,476	\$ (10,898)

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
FOR THE YEAR ENDED MARCH 31, 2005

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended budget
Resources (inflows)				
State shared revenue -				
gas and weight tax	\$ 125,633	\$ 125,633	\$ 120,446	\$ (5,187)
Interest income	1,250	1,250	1,639	389
Amounts available for appropriations	126,883	126,883	122,085	(4,798)
Charges to appropriations (outflows)				
Public works				
street maintenance	31,538	36,788	42,476	(5,688)
traffic service	6,958	6,708	6,183	525
snow removal	26,300	21,330	22,120	(790)
supervision	18,724	18,724	23,696	(4,972)
Transfers to other funds	30,000	30,000	30,000	-
Total charges to appropriations	113,520	113,550	124,475	(10,925)
Excess (deficiency) of resources over charges to appropriations	13,363	13,333	(2,390)	(15,723)
Beginning of Year Fund Balance	156,476	156,476	156,476	
End of Year Fund Balance	\$ 169,839	\$ 169,809	\$ 154,086	\$ (15,723)

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
FOR THE YEAR ENDED MARCH 31, 2005

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended budget
Resources (inflows)				
State shared revenue -				
gas and weight tax	\$ 44,198	\$ 44,198	\$ 42,566	\$ (1,632)
Interest income	500	500	103	(397)
Transfers in from other funds	30,000	30,000	30,000	-
Amounts available for appropriations	74,698	74,698	72,669	(2,029)
Charges to appropriations (outflows)				
Public works				
street maintenance	24,118	33,218	41,284	(8,066)
traffic service	3,607	4,007	4,694	(687)
snow removal	14,730	17,230	19,305	(2,075)
supervision	29,472	17,472	15,799	1,673
Transfers to other funds	-	-	-	-
Total charges to appropriations	71,927	71,927	81,082	(9,155)
Excess (deficiency) of resources over charges to appropriations	2,771	2,771	(8,413)	(11,184)
Beginning of Year Fund Balance	29,402	29,402	29,402	
End of Year Fund Balance	\$ 32,173	\$ 32,173	\$ 20,989	\$ (11,184)

OTHER SUPPLEMENTARY INFORMATION

VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN
COMBINING BALANCE SHEET OF NONMAJOR GOVERNMENTAL FUNDS
March 31, 2005

	Forfeiture Fund	4th of July Fund	Debt-Service Water Fund	Capital Improvements Fund
ASSETS				
Cash and cash equivalents	\$ 2,234	\$ 3,126	\$ -	\$ 28,050
Taxes receivable	-	-	1,526	-
Assets restricted by bond indentures	-	-	74,563	-
Total Assets	<u>\$ 2,234</u>	<u>\$ 3,126</u>	<u>\$ 76,089</u>	<u>\$ 28,050</u>
LIABILITIES				
Cash overdrafts	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCE				
Reserved	\$ -	\$ -	\$ 76,089	\$ 28,050
Unreserved	2,234	3,126	-	-
Total fund equity	<u>\$ 2,234</u>	<u>\$ 3,126</u>	<u>\$ 76,089</u>	<u>\$ 28,050</u>
Total liabilities and fund equity	<u>\$ 2,234</u>	<u>\$ 3,126</u>	<u>\$ 76,089</u>	<u>\$ 28,050</u>

See accompanying notes to financial statements

Debt-service Sewer 2001 Fund	Capital Projects	Sinking Fund	Total Nonmajor Governmental Funds
\$ 33,229	\$ -	\$ -	\$ 66,639
2,289	-	-	3,815
-	-	-	74,563
<u>\$ 35,518</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,017</u>
\$ -	\$ -	\$ 2,804	\$ 2,804
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,804</u>	<u>\$ 2,804</u>
\$ 35,518	\$ -	\$ (2,804)	\$ 136,853
-	-	-	5,360
<u>\$ 35,518</u>	<u>\$ -</u>	<u>\$ (2,804)</u>	<u>\$ 142,213</u>
<u>\$ 35,518</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,017</u>

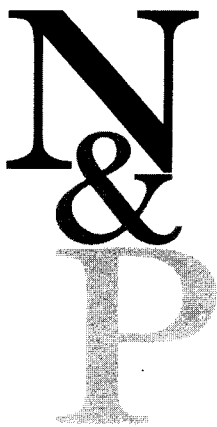
VILLAGE OF CONSTANTINE, ST. JOSEPH COUNTY, MICHIGAN

COMBINED STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2005

	Forfeiture Fund	4th of July Fund	Debt-Service Water Fund	Capital Improvements Fund
Revenues				
Taxes and Penalties	\$ -	-	\$ 54,972	\$ -
Interest income	-	-	1,100	293
Contributions from the public	-	15,109	-	-
Miscellaneous income	1,765	-	-	-
Total Revenues	1,765	15,109	56,072	293
Expenditures				
Current				
General government	200	11,983	-	-
Recreation	-	-	-	242
Debt Service				
Paying agent fees	-	-	300	-
Principal payments	-	-	25,000	-
Interest payments	-	-	25,260	-
Total Expenditures	200	11,983	50,560	242
Excess (deficiency) of Revenues Over Expenditures	1,565	3,126	5,512	51
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	1,565	3,126	5,512	51
Fund Balance - April 1, 2004	669	-	70,577	27,999
Fund Balance - March 31, 2005	<u>\$ 2,234</u>	<u>\$ 3,126</u>	<u>\$ 76,089</u>	<u>\$ 28,050</u>

See accompanying notes to financial statements

Debt-service Sewer 2001 Fund	Capital Projects	Sinking Fund	Total Nonmajor Governmental Funds
\$ 82,461	\$ -	\$ -	\$ 137,433
342	196	-	1,931
-	-	-	15,109
-	-	-	1,765
82,803	196	-	156,238
-	-	-	12,183
-	-	-	242
250	-	-	550
15,000	-	-	40,000
70,610	-	-	95,870
85,860	-	-	148,845
(3,057)	196	-	7,393
34,597	-	500	35,097
-	(34,597)	-	(34,597)
34,597	(34,597)	500	500
31,540	(34,401)	500	7,893
3,978	34,401	(3,304)	134,320
\$ 35,518	\$ -	\$ (2,804)	\$ 142,213



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To the Village Council and
Village Management
Village of Constantine
Constantine, Michigan

In planning and performing our audit of the financial statements of the Village of Constantine, for the year ended March 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Village of Constantine's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions noted:

Management oversight and review

Although the size of the Village's accounting staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

One of the most criteria areas is separation of cash, where we noted the bookkeeper handles incoming checks for non sewer/water receipts, prepares the deposit ticket, posts receipts to the general ledger, prepares disbursement checks, and receives and reconciles the monthly bank statement. The result is the danger that intentional or unintentional errors could be made and not detected.

We recommend that the Village Manager or Treasurer receive and open the bank statements and review the cancelled checks/deposits and transfers for reasonableness before turning them over to the bookkeeper to prepare the bank reconciliations. The Village Manager should also review the reconciliations after they are prepared to approve any adjustments being made to the general ledger to reconcile cash. These added steps would not require significant time while providing a needed internal control.

In the accounts receivable area we noted the accounts receivable clerk and part-time person both receive cash receipts, either may prepare the deposit ticket and make the deposit. The accounts receivable clerk inputs receipts, prepares customer statements and also receives and investigates residential customer complaints and authorizes noncash credits to customer accounts. The Village Manager investigates commercial customer complaints and authorizes credits.

We recommend on an occasional surprise basis that the Village Manager review resolution of residential customer complaints and supporting documentation. Monthly, he should review a report of all noncash credits issued.

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In completing our audit, we noted that the Village Manager's salary had been misallocated all fiscal year with 70% allocated to the Sewer Fund rather than 20% to the Sewer Fund and 50% to Administration. It would appear that periodic budget-to-actual comparisons are not being done either by the bookkeeper or by the Village Manager to provide a check and balance that interim financial statements are materially correct.

Cash Management

Cash receipts are not being deposited on a timely basis. At the present time, daily cash receipts are accumulated and put into the office safe at night with deposits being made weekly. As a result, not only is there risk of loss from fire, burglary, misplacement or misappropriation, but the cash is not available for expenditures or investment. It is not usual for \$1,000 of cash to be received in any one day.

We recommend that deposits be made on a daily basis both to improve cash flow and to reduce the risk of loss. If the building were to burn the monies would not be protected in the safe.

Water/Sewer Accounts Receivable Billing

During our audit we noted that the Sewer Fund revenues were less than expected. Upon further investigation it was determined that the Sewer Fund Accounts Receivable software had been programmed incorrectly. The Accounts Receivable clerk failed to test the new software module output for accuracy in computing customer billing at the new billing rates. We brought it to the attention of the clerk prior to the software upgrade that a random testing of customer billing needed to be made to verify the billings were being computed correctly. When Norman & Paulsen confronted the clerk about the unreasonableness of the fiscal year's revenues she admitted she had never tested the system and did not have someone else recalculate manual calculations of customer billings. Upon further investigation and discussion with the clerk it was determined that a wrong formula had been used. We estimated approximately a \$90,000 understatement of revenues based on a random testing of billings.

We recommend every time the software is updated, sewer and/or water rates change, or the method of billing changes (monthly to bimonthly or to quarterly) that a random sample of customers be selected for which their billing is recalculated manually and compared to the software's calculations. A second person should check the billing calculation anytime a customer's billing is manually calculated versus being calculated by the software.

We noted that billings were not going out until approximately the 14th of the month. We recommend that billings' procedures be reviewed to determine why the delay and how the billing system could be improved to provide more timely billings.

Electronic data security and access

In discussion with the office staff we noted that computer backups are not being stored offsite. One of the main reasons for creating backup files is to be able to recover in the event of a disaster, such as fire or water damage. This objective is not served if backup files are not kept separate from the regular files.

We recommend that backups be made before and after major transactions such as billing, month-end closings. Daily backups should be made of all modules used that day. A series of different backup media should be used in case of an unknown bad media. A month-end backup should be maintained until after the next month-end close. A year-end backup should be maintained until after the next year-end close. Strong consideration should be given to storing backup media offsite or outsourcing the backup process.

Although the Village policy is to use passwords to restrict access to different applications, menus, and programs, we noted that passwords of accounting staff are not being kept confidential. We recommend that each authorized user be issued a unique password with an associated profile that defines access rights by information type and workstations. The passwords should be kept confidential and changed periodically, especially when user personnel change.

Vacation Days Used and Carried Over

We noted that the Village was not enforcing the vacation day policy as negotiated in the applicable union contracts. Per reading of the union contracts no vacation pay can be carried over but rather unused days expire on the anniversary date of the employee. Per discussion with the bookkeeper it was learned that with permission employees could carry over days.

We recommend that the union contracts specify the policy the Village intends to enforce so there are no misunderstandings or conflicts with current or terminated employees.

Since the number of employees is small, the bookkeeper should not find it difficult to set up a schedule for tracking by employee, vacation days earned, used, carried over, and expired. The Village might find it desirable to periodically communicate to employees the status of their "vacation account" so employees can better plan their vacations and take advantage of their accrued vacation benefits in a manner fair to themselves and the Village. This method would allow any misunderstandings to be identified and resolved.

Village retirement contributions

We noted during our audit that an addendum to the Village's agreement with the police officers concerning the maximum retirement plan contribution by the Village did not agree with the amount stated in the retirement plan's Summary Plan Description. We noted that the addendum, effective October 11, 2000, stated the maximum contribution to be \$2,500 rather than the \$2,080 stated in the Summary Plan Description. Upon further inquiry, the bookkeeper determined that the Service Employees' agreement also had signed an agreement, effective April 1, 2002, increasing their retirement plan employer contribution to \$3,120. Every year we ask for updated copies of agreements. We never received these updates prior to this audit. It is imperative that we receive all agreements currently in effect.

We recommend that the unpaid employer contributions be accrued and shown on the financial statements as a liability at March 31, 2005 and paid in promptly.

This report is intended solely for the information and use of the Village Council of the Village of Constantine, and management and is not intended to be and should not be used by anyone other than these specified parties.

Norman & Paulsen PC

Norman & Paulsen, P.C.

January 9, 2006